

Business models in project business

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Abstract

Recent management and business research has demonstrated the importance of business models for value creation and company performance. So far, extant research on business models has not investigated the particular requirements, characteristics and combinations of business models in project business. This paper seeks to fill this void. The paper reports on findings from an exploratory multiple case study comprising six project-based firms operating in such industries as shipbuilding, telecom, and power systems. 19 business models were identified and compared through a framework utilizing elements of business models. The identified business models are further grouped into three categories based on the organizational entity. The paper points out the diversity of business models in project business and their inclination to span organizational levels. The results demonstrate the importance of addressing the combination of business models across organizational boundaries.

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1. Introduction

Companies initiate and participate in projects to improve their innovative capacity, to carry out system-wide change efforts, and to enhance their adaptive capability. Recent research has indicated that many projects serve as strategic arenas to develop new capabilities that can be reused in future business (Davies and Hobday, 2005). A parallel development trajectory concerns the role of projects in accommodating

complex business transactions. Such transactions have been common in the construction industry for several decades, and have also become significant in a range of other industries and sectors so that; technology-based and service-providing firms increasingly organize their operational activities in different kinds of projects and customer delivery projects (Morris and Hough, 1987; Flyvbjerg et al., 2003; Artto and Wikström, 2005; Davies, 2004; Hobday, 2000). In addition, firms operating in creative industries such as entertainment and film-making, and in large sport events industries such as the Olympic Games (Grün, 2004) organize much of their business transactions in multi-party projects (DeFillippi and Arthur, 1998; Sydow and Staber, 2002; Lundin and Norbäck, 2009) and many firms are project-based in terms of integrating their diverse and specialized intellectual resources in innovation and R&D projects (Gann and Salter, 2000; Keegan and Turner, 2002; Lindkvist, 2004) producing complex project landscapes which are controlled by means of portfolio and program management (Pellegrianni, 1997; Artto and Dietrich, 2004). At the same time research has documented the salient features of project business,

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the limitations of achieving long-term benefits and manageability through focusing only on managing projects and related firms on a temporary basis (Neu and Brown, 2005). Several authors have argued for the need for new perspectives on how projects, firms and their networks are developed and managed in project business. They have in common that the strategic and long-term view on project business should be elaborated, and that the specific challenges of project business should be taken into account by applying concepts from the strategic literatures. The focus of this paper lies in addressing the meaning and implications that the strategic concept of a “business model” has for the understanding of project business, which include not only firms delivering complex projects and using their results, but also other actors financing, insuring, regulating, brokering or moderating complex project transactions.

Project-based firms are found in a wide range of industries, such as consulting and professional services, cultural and sports industries, and complex products and systems (Sydow et al., 2004). The majority of project-based firms engage in tailor-made deliveries and extend their offerings beyond traditional project deliveries by integrating maintenance, spare parts and services, management contracts, and even partial ownerships in multi-actor-enterprises running the operations of a complex system, leading to significant scope and responsibility changes and concomitantly increasingly complex projects (Arto et al., 2008; Wikström et al., 2009). This typically requires cooperation with other partners, suppliers, customers, and in that respect project-based firms need to cross organizational boundaries and knowledge bases. An important consequence is therefore the complex and difficult cooperation and coordination processes, involving many technologies and individual organizations in the manufacture and delivery of complex systems, making systems integration a core capability in contemporary project-based firms (Liinamaa and Wikström, 2009; Söderlund, 2005).

We suggest that a project represents a ‘delivery system’ of a firm’s internal development (Keegan and Turner, 2002) and/or external business activities (Cova et al., 2002; Hobday, 1998). An individual project may cross the boundaries of two firms (e.g. designing of products and services jointly by the project contractor firm and its client (Hobday, 1998), or several firms, such as alliances (Windeler and Sydow, 2001) or coalitions (Winch, 2006) between several firms; projects as multi-organization enterprises (Grün, 2004); project networks (Hellgren and Stjernberg, 1995); or project ecologies (Grabher, 2002). The need for adaption with other firms and other projects is emphasized due to requirement from changing business environments and dynamism in network constellations (Hellström and Wikström, 2005).

Accordingly, ‘project business’ becomes an important part of many project-based industries and a key activity for an increasing number of firms. Project business differs from other types of business, primarily due to its specific relational context, time-limitedness, value creation properties, type of complexity and its high degree of uncertainty and limited possibilities for standardization (Hellström, 2005). However, individual firms navigate differently in this competitive

landscape through diverse strategies and business models, combinations of business models with other firms in the same network. Even entire networks of firms may decide to combine their resources to effectuate a particular type of business model. In that respect, business models can play an important part in the firm’s repertoire of responses to the specific nature of project business — its context and content. What seems critical is therefore to explore business models operating in project business and how they operate within single or multiple firms, within single projects, and business networks. This paper demonstrates that business models in project-based industries are tied together on different levels, both inter- and intra-organizational: the project level, the firm level, or the level of entire networks of firms and/or projects. In that respect, this paper seeks to contribute to the literature on business models by particularly showing how they operate in project-based industries.

This paper reports on findings from an empirical study of six project-based firms operating in diverse project-based industries as telecom, shipbuilding, and power systems. The starting point for our research was observations that the variety of business models and combinations of business models showed a pluralism that has not received large attention in the research on business models. To make sense of this initial observation, we address two primary research questions:

- RQ1 What are the characteristics of the various types of business models in project business?
- RQ2 In what kinds of organizational entities do such business models coexist?

RQ1 looks at the existence of various business models and their main characteristics that might even be hidden or embedded in the formal or informal practices, such as activities and approaches in networked organizations among multiple firms and projects. RQ2 explores the existence or co-existence of such business models in different organizational entities. Such models could be related to separate organizational bodies, or they may partly or fully coexist or overlap in same organizational entities. In addition to the organizational coverage issue, the business models may be interlinked, e.g. by being collaborative or competitive, which would indicate that there is room for alignment or collisions, respectively.

The paper is structured in the following way. First, we discuss the concept of business models — how it relates to project business and its central characteristics and challenges. Second, we empirically identify and analyze the business models emerging from our exploratory multiple case study. Finally, we discuss the practical and theoretical implications of our findings.

2. Business models

The concept of business models has emerged from previous research in the field of strategy from concepts as business idea and theory of business (Normann, 1975, 2001; Porter, 1998; Drucker, 1979, 1994). Research on the concept of theory of

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